

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

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FY 2004 Budget Conference Agreement:

Republicans Dig the Deficit Deeper

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

All years fiscal years unless otherwise noted.

Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.

Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.

Numbers in tables may not add due to rounding.

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Overview

The budget resolution conference agreement creates unending deficits and debt that will stifle economic growth and undermine the soundness of Social Security and Medicare as 77 million baby-boomers begin to retire. The resolution is a vague statement of what the Republican leadership intends to do with the budget — providing much less detail than the kind of broad, overall plan intended by the Budget Act. But the resolution has one clear purpose: to facilitate more oversized tax cuts that benefit those who need help the least.

Tax Cuts

Even though the surpluses projected two years ago are gone and the budget is sinking deeper into deficit, the Republican budget resolution has no plan or process for balancing the budget again. To the contrary, it worsens the deficit with more large tax cuts directed mainly to those who need the help the least. The conference agreement makes room for about \$1.3 trillion of new tax cuts, on top of the \$1.35 trillion passed just two years ago. But rather than focusing their attention on the total amount of tax cuts in the conference agreement, Republicans have concentrated thus far on the \$550 billion of the new tax cuts to be afforded reconciliation protection. To gain the 50 Republican Senate votes needed to pass their resolution, the Senate leadership had to make an oral agreement to limit the reconciled tax cut to \$350 billion; House Republicans, other Republican Senators, and the White House have ever

Key Facts About the Republican Budget Resolution

Tax Cuts, Reconciled:

- ▶ Cumulative, 2003-2013: \$550 billion (including outlay effects)

Tax Cuts, Not Reconciled:

- ▶ Cumulative, 2003-2013: \$690 billion (not including unreconciled outlay effects, which are not specified in the resolution)

Tax Cuts, Total:

- ▶ 2003: \$56.7 billion (not including outlay effects)
- ▶ 2004: \$140.9 billion (not including outlay effects)
- ▶ 2013: \$250.2 billion (not including outlay effects)
- ▶ Cumulative, 2003-2013:
 - \$1.225 trillion (not including outlay effects)
 - \$1.240 trillion (including reconciled outlay effects for House only)
 - \$1.290 trillion (assuming \$50 billion from reserve for health care)
 - \$1.575 trillion (President's budget, including outlay effects)

since been plotting ways to raise the number back to \$550 billion and to ensure the enactment of at least \$690 billion of unreconciled tax cuts allowed under the resolution. Thus, although the conference agreement facilitates additional tax cuts, its ultimate effect on tax cuts remains undecided.

Deficits and Debt

The conference agreement sets a new record. The unified deficit in 2003 will be \$347.2 billion, and \$385.0 billion, even larger, in 2004. In succeeding years, the resolution omits important costs — including the post-2003 price of the war and reconstruction in Iraq, relief from the ballooning individual alternative minimum tax, and the repair of Social Security and Medicare for the retirement of the baby-boom generation. These omissions allow the resolution to claim a slowly improving outlook.

But the conference agreement still shows an accumulated unified deficit of \$1.4 trillion over the ten years 2004-2013. (Measured over this Administration's first budget time-frame, 2002-2011, the budget surpluses two years ago, \$5.6 trillion, have now become a cumulative deficit of \$2.0 trillion.) Excluding the Social Security surplus, the deficit will be \$512.3 billion in 2003, and \$558.4 billion in 2004 — again, two new records. The non-Social Security deficit declines only slowly over the next ten years, and is still greater than \$300 billion in 2013. The debt held by the public, which at the beginning of this Administration was \$3.3 trillion and falling, will now reach \$5.4 trillion by the end of 2013.

Even more shocking, the debt subject to statutory limit, which at the beginning of this Administration was \$5.7 trillion, is now projected to reach more than \$12 trillion by the end of 2013 — more than doubling as a result of the stewardship of this Republican President and Congress. It is not surprising, therefore, that House Republicans are trying to use a new "Hastert Rule" to effect an increase in the debt limit without an explicit vote.

Key Facts About the Republican Budget Resolution

Deficits, Excluding Social Security:

- ▶ 2003: \$512.3 billion
- ▶ 2004: \$558.4 billion
- ▶ 2013: \$301.5 billion
- ▶ Cumulative, 2004-2013: \$4.0 trillion

Unified Deficits:

- ▶ 2003: \$347.2 billion
- ▶ 2004: \$385.0 billion
- ▶ Cumulative, 2002-2011: \$2.0 trillion
- ▶ Cumulative, 2004-2013: \$1.4 trillion

Debt Subject to Limit:

- ▶ End of Fiscal Year 2003: \$6.7 trillion
- ▶ End of Fiscal Year 2004: \$7.4 trillion
- ▶ End of Fiscal Year 2013: \$12.0 trillion

Debt Held By the Public:

- ▶ End of Fiscal Year 2003: \$3.9 trillion
- ▶ End of Fiscal Year 2004: \$4.3 trillion
- ▶ End of Fiscal Year 2013: \$5.4 trillion

Mandatory Spending

The Republican resolution began in the House by adding massive cuts in essential programs solely to offset part of the President's proposed tax cuts. House Republicans, by a majority of 214 to 12, voted to require cuts in vital mandatory programs such as Medicare, Medicaid, veterans pensions and disability compensation, student loans, child nutrition, public employee pensions, and support to low-income working families with children by at least \$265 billion over the ten-year budget period. (Republicans on the Budget Committee voted unanimously to cut these programs by \$470 billion. See the following section, *House Republicans Voted to Cut Vital Programs*, for a complete analysis.)

The Senate resolution did not include these cuts, so the final conference agreement requires that the authorizing committees submit suggestions to achieve a yet-to-be determined amount of savings in future budgets — once more leaving open questions about what this budget really means.

Key Facts About the Republican Budget Resolution

Reconciled Mandatory Spending Cuts, Cumulative, 2004-2013:

- ▶ Resolution as Submitted to the Budget Committee for Markup: \$470 billion
- ▶ Resolution as Reported By the Committee, if Medicare Prescription Drug Program Was \$28 Billion or Less: \$265 billion
- ▶ Resolution as Reported By the Committee, if Medicare Prescription Drug Program Was \$400 Billion: \$470 billion
 - Note: All House Budget Committee Republicans voted for the above mandatory spending cuts.
- ▶ Resolution as Passed By the House: \$265 billion
 - Note: 214 House Republicans voted for the above mandatory spending cuts; 12 voted against.

Appropriated Spending

The presentation of discretionary appropriations in the Republican conference agreement is particularly misleading. The conference agreement calls for nondefense domestic appropriations for 2004 at \$7.2 billion of budget authority below the level needed to maintain current services. Republicans claim that this funding level will not require the specific spending cuts that the President included in his budget.

Still, the appropriations picture is even bleaker than the conference agreement suggests, for at least three reasons. First, in 2004, the conference agreement includes an unspecified, unallocated discretionary spending cut of \$7.6 billion of budget authority; this cut must come out of the spending levels specified elsewhere, making all appropriations numbers in the resolution suspect. This unspecified cut grows larger, to \$128.3 billion over the ten-year budget horizon. Second, numbers for the more-visible, high-priority program areas are artificially financed through assumed unrealistic cuts in more mundane but equally essential appropriated programs, which must in the end have more funds than are included in the conference agreement. And finally, although the 2004 appropriations figure may seem plausible, the conference agreement uses increasingly unrealistic unspecified appropriations cuts in later years to hide the troubling deficits that would otherwise appear.

Therefore, none of the claims of spending levels for appropriated high-priority programs in the Republican conference agreement can be taken at face value. And again, all of these spending cuts are needed solely to finance the President's unbalanced and excessive tax cuts.

Key Facts About the Republican Budget Resolution

Change in Appropriated Discretionary Spending, Compared With CBO Baseline, Excluding 2003 Supplemental:

- ▶ Defense, 2004: -\$2.0 billion
- ▶ Defense, 2004-2013: \$208.0 billion

- ▶ Domestic, including \$7.6 billion of unallocated cuts, 2004: -\$7.2 billion
- ▶ Domestic, including \$128.3 billion of unallocated cuts, 2004-2013: -\$167.7 billion

Summary

In sum, as troubling as the Republican conference agreement on the budget resolution appears, in reality it is even worse. While the conference agreement shows a continuing massive invasion of the Social Security Trust Fund surplus for the entire decade, it under-funds key government activities and under-counts impending costs. If implemented, it will leave the government and the nation weaker, and ill-prepared for the impending challenges of population aging.

The Congress did not need to face this unpalatable choice. The House Democratic budget alternative surpassed the conference agreement (and the President's budget) in every respect important to the American people. The House Democratic budget protected key services from

cuts and made focused investments in health care and other priorities, while boosting economic growth with an effective, fiscally responsible stimulus plan. The Democratic budget achieved balance in 2010 — sooner than the conference agreement, and with \$1.3 trillion less accumulated debt. In contrast, to pay for its oversized tax cuts, the Republican conference report must run deeper deficits, cut key services, fail to make adequate investments in important priorities, and omit any effective economic growth plan. The President and Congressional Republicans should reconsider carefully the Democratic budget alternative before they implement the fatally flawed Republican budget resolution.

Republicans have already shown their concern about the shortcomings of their own plan. When Democrats offered a motion to instruct the House conferees to remove the most egregious Republican mandatory spending cuts and shrink the oversized tax cuts, the Republican leadership saw that they could not defeat the motion, and so developed a rationale to accept it. In the end, 197 Republicans voted for the Democratic motion to instruct, which carried, 399 to 22. This was just one more indication that the Republican budget priorities are untenable. Further consideration should take the Congress to the Democratic approach to fiscal responsibility, economic growth, and job creation.

House Republicans Voted to Cut Vital Programs: Medicare, Medicaid, Veterans, Education, Pensions, and Others

One of the most important powers of a budget resolution is to require action by other committees of the Congress through reconciliation instructions. Reconciliation was established in the first Congressional Budget Act to facilitate painful actions — spending cuts and tax increases — to reduce the budget deficit. A committee that receives a reconciliation instruction to produce a bill that cuts spending in its jurisdiction must do so, or else the Budget Committee may write its own bill to achieve those savings. Thus, if a budget resolution issues reconciliation instructions to cut spending, that spending is likely to be cut.

The House Budget Committee Chairman’s Mark, submitted to the Committee on March 12, included the following reconciliation instructions to the various House committees:

Reconciliation Instructions In House Budget Chairman’s Mark			
COMMITTEE	2004	2004-2008	2004-2013
Agriculture	-0.618	-5.696	-19.171
Education & Workforce	-0.269	-2.675	-9.701
Energy & Commerce	-2.468	-26.018	-110.564
Financial Services (Budget Authority)	-0.013	-0.126	-0.144
Government Reform	-1.104	-10.680	-39.464
House Administration	-0.005	-0.028	-0.091
International Relations	-0.161	-1.333	-4.605
Judiciary	-0.088	-0.749	-2.475
Resources	-0.040	-0.354	-1.137
Science	-0.001	-0.006	-0.015
Small Business	N.A.	N.A.	N.A.
Transportation & Infrastructure	-0.192	-1.798	-6.087
Veterans Affairs	-0.463	-4.347	-15.062
Ways & Means	-6.649	-66.287	-261.777
TOTAL	-12.071	-120.097	-470.293

Thus, a vote for this budget resolution was a vote to cut the indicated programs by a total of \$470 billion over the next ten years.

Over the course of the Committee markup, Democrats offered the following amendments to the budget resolution:

Democratic Amendments to Reduce Mandatory Spending Cuts in Committee		
<u>Strike All Cuts To</u>	<u>Restored Amount</u>	<u>Vote #</u>
Medicare	\$215 billion	6
Education	\$10 billion	7
Resources	\$1 billion	11
Veterans	\$15 billion	14 *
Medicaid	\$111 billion	18
*This amendment received one Republican vote.		

All but one of these amendments were defeated in party-line votes, in which Republicans voted “no;” on the other vote, all but one Republican voted “no.” Thus, Committee Republicans voted explicitly and repeatedly to affirm the Medicare, Medicaid, veterans, education, and resource spending cuts included in the Republican budget resolution.

At the end of the markup session, Republicans voted to accept a “manager’s amendment” submitted by the Chairman, which altered the reconciliation instructions and struck \$400 billion allocated for a prescription drug program for the elderly. However, under this version of the resolution, if Republicans should have decided to keep the cost of the prescription drug program at the \$400 billion requested by the President, the amount of the spending cuts would revert to the original reconciliation instruction shown above. The spending cuts would be reduced only if Republicans ultimately agreed to cut the size of their prescription drug program, which they insisted they would not do.

Then, ending the markup, all Committee Republicans in a party-line vote once again affirmed the spending cuts in the House Republican budget resolution, as listed above.

Although Republicans claimed these spending cuts would not actually affect the programs involved, but would target only “waste, fraud, and abuse,” the amounts of spending cuts required of each committee were determined by a mathematical formula that was driven solely by the total amount of mandatory spending under the jurisdiction of that committee. There was no actual estimate of the amount of “waste, fraud, and abuse” that has occurred under the Republican control of each of these committees over the last eight years. Likewise, there were no specific policy recommendations in the budget resolution to show how these savings could be achieved purely from “waste, fraud, and abuse.”

In the same vein, some Republicans argued that their reconciliation instructions did not constitute “cuts” at all, because they were taken from the “baseline” levels of spending for the various programs, which increased from year to year. However, the Republican instructions did require cuts from the levels of spending that the President himself recommended. And the Republican line of argument ignored the simple fact that the President’s recommended levels were the costs of the programs’ continuing to provide the same levels of benefits and services that they provide this year. Those costs increase because of increases in the sizes of the

populations affected by the programs, and because of inflation in the cost of providing those services. Cuts below the President's recommended spending levels would therefore require either cuts in the levels of services per person, or removing some current beneficiaries from the programs, or both.

By the time they brought their budget resolution to the floor, Republicans had once again (in a manager's amendment) changed the reconciliation instructions, but the reconciliation instructions to 13 of the 14 committees were not substantively changed; only the instruction to the Ways & Means Committee was materially reduced. (The other instructions changed very slightly because of corrections to the mathematical formulas underlying the numbers.) This reduction, which brought the total spending cuts down to \$265 billion, ostensibly reduced the amount of savings required of Medicare. However, nothing in the resolution said explicitly that Medicare should not be cut, or that savings from Medicare would not be counted against the Committee's obligation under the reconciliation instruction. (See the table below.)

Reconciliation Instructions In House-Passed Budget Resolution			
COMMITTEE	2004	2004-2008	2004-2013
Agriculture	-0.600	-5.532	-18.618
Education & Workforce	-0.261	-2.596	-9.421
Energy & Commerce	-2.397	-25.265	-107.359
Financial Services (Budget Authority)	-0.062	-0.678	-2.864
Government Reform	-1.072	-10.371	-38.319
House Administration	-0.004	-0.026	-0.088
International Relations	-0.157	-1.293	-4.468
Judiciary	-0.086	-0.727	-2.404
Resources	-0.040	-0.345	-1.105
Science	-0.001	-0.006	-0.015
Small Business	N.A.	N.A.	N.A.
Transportation & Infrastructure	-0.114	-1.099	-3.702
Veterans Affairs	-0.449	-4.221	-14.626
Ways & Means	-1.971	-17.704	-61.547
TOTAL	-7.214	-69.863	-264.536

Then, on the floor, House Republicans passed their budget resolution by a scant three-vote margin. By supporting the House budget resolution, 214 Republicans expressed their support for

hundreds of billions of dollars of cuts in vital programs such as Medicare, Medicaid, veterans benefits, education, agriculture, and public pensions.

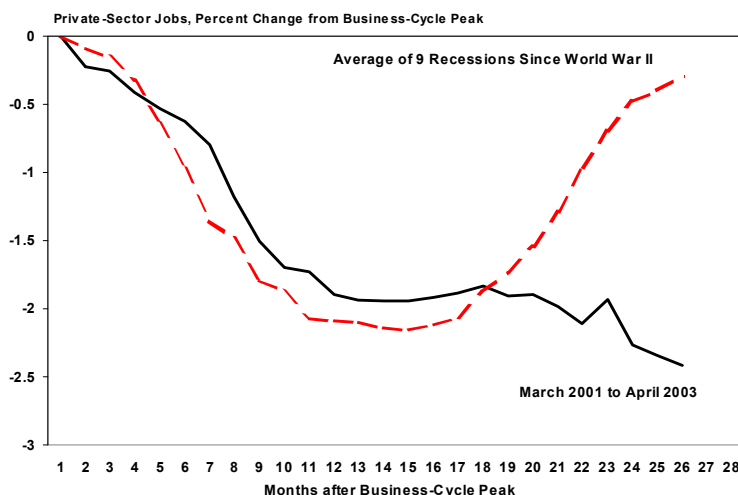
Members of the Senate — both Republicans and Democrats — roundly opposed this extreme plan. Hence, the ultimate conference agreement on the budget resolution did not include these reconciliation cuts. However, the conference agreement does include a requirement that the various committees by September provide ideas to achieve target amounts of savings, with the targets to be provided in May by the two Budget Chairmen. Thus, even though the offending spending cuts are no longer required, they remain on the agenda of House Republicans.

Update on Trickle-Down Economics

President Bush has overseen the worst economic performance since the Great Depression. This Administration has recorded failures with regard to job creation, real GDP growth, new business investment, and the trade deficit. Since the President took office:

- ▶ 2.7 million private-sector jobs have been lost, the worst performance for any President in over 50 years. Initial claims for unemployment insurance have now stayed above 400,000 per week over the last eleven weeks, suggesting continuing labor market weakness.
- ▶ an additional 2.8 million people have become unemployed. Long-term unemployment (jobless for six months or longer) has tripled.
- ▶ real GDP has inched up at only a 1.5 percent annual rate, the worst record for any Administration in over 50 years.
- ▶ real business investment has fallen 11.8 percent, the worst record for any administration in over 50 years.
- ▶ industrial production has fallen by 2.7 percent.
- ▶ the value of the stock market has plunged by \$4.6 trillion.
- ▶ the Conference Board's consumer confidence index has dropped to its lowest level in a decade.
- ▶ the trade deficit has swollen to a record \$436 billion, a 15 percent deterioration in just two years.

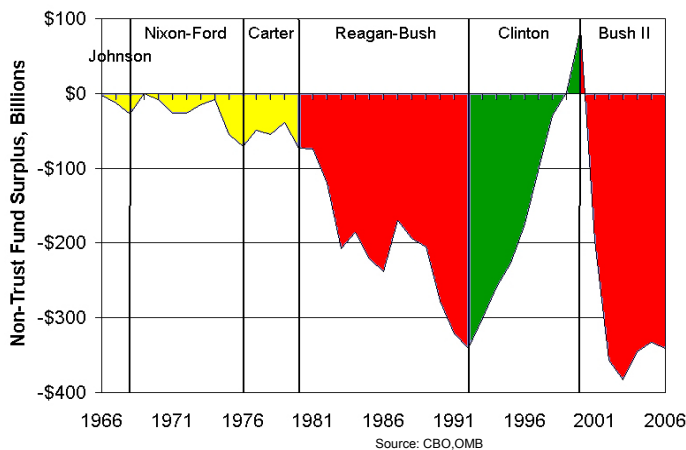
The Jobs Recession



Irresponsible Tax Agenda Drives Budget Into Permanent Deficit

A chapter labeled “Stewardship” in the *Analytical Perspectives* volume of the President’s budget this year acknowledges that adhering to the President’s policies will result in permanent budget deficits. This chapter contains a series of charts on pages 41 through 45 showing that the President’s policies create deficits that grow as a percent of GDP for the next 50 years ***even under optimistic assumptions about productivity, inflation, mortality, fertility, immigration, and health care costs***. The President’s budget refers to this as “the real fiscal danger” but offers no plan to avoid permanent deficits.

Republicans Raid Social Security and Medicare



The conference agreement on the budget resolution shies away from the President’s permanent budget deficits — but just barely. Ostensibly, the Republican budget reaches unified balance in 2012, though the non-Social Security budget remains forever in deficit. The budget achieves putative balance in 2012 only by assuming sharp — but unspecified and hypothetical — spending cuts years far in the future. Either these cuts will do great harm, or they will not be implemented precisely because

they are so harmful and the deficit will be even larger. (For further discussion of harmful or implausible spending cuts see *House Republicans Voted to Cut Vital Programs: Medicare, Medicaid, Veterans, Education, Pensions and Others*.)

Surprise! Deficit-Financed Tax Cuts Make Deficits Worse

Republicans’ insistence on another \$1.3 trillion of tax cuts even though the budget already is in deficit drives both the unpalatable deficits and the implausible spending cuts in their budget. The laws of arithmetic require that cutting taxes by over a trillion dollars in the face of deficits either creates worse deficits or necessitates huge spending cuts sufficient to close the gap. No other alternatives exist — unless one believes that tax cuts make deficits smaller, rather than larger. However, most serious economists do not subscribe to this.

Republicans' discomfort with the arithmetic implications of their large, deficit-financed tax cuts was evident in their ambivalent votes on the budget resolution.

- After a long day of marking up the budget resolution, just before the Budget Committee completed its work, Republicans suddenly changed the resolution because of anxiety within the Republican Conference. They attempted to camouflage the obligatory spending cuts required by the reconciliation directive in the Chairman's original Mark with a complicated set of interacting provisions. The provisions ostensibly got rid of \$372 billion in obligatory cuts but only at the cost of ratcheting back new money for a prescription drug benefit from \$400 billion to a mere \$28 billion over ten years. Because these changes were exactly offsetting, the Republican budget at this point still claimed to reach balance in 2010.
- Then, even before the budget resolution reached the House floor, Republicans made another middle-of-the-night change to mollify their Members. They reduced the budget's obligatory spending cuts again, this time to \$265 billion, while again asserting that they would spend \$400 billion on prescription drug coverage. This pushed back the date of putative budget balance until 2012 and added \$228 billion in public debt the budget would create.
- Finally, the conference on the budget resolution — again as a result of secret negotiations among only Republicans — completely eliminated any obligatory spending cuts. Without these, Republicans could still claim balance in 2012 only by virtue of very sharp cuts to appropriations far in the future that simply are not credible. Even with these implausible spending cuts far in the future, the change added another \$476 billion to the public debt. (For a more thorough discussion of Republicans' shifting stance on the budget resolution, see *Overview*.)

Republicans voted first for the truly horrendous spending cuts that \$1.3 trillion in deficit-financed tax cuts require in order to reach budget balance by 2010. Then, they progressively shifted their ground, reducing both the size and the credibility of the spending cuts needed to achieve balance, while necessarily pushing back the date when they could claim to do so.

Deficits Will Be Far Worse Than Official Projections Indicate

Like earlier ones, this year's Republican budget simply ignores inevitable costs that will make future deficits far worse than currently estimated.

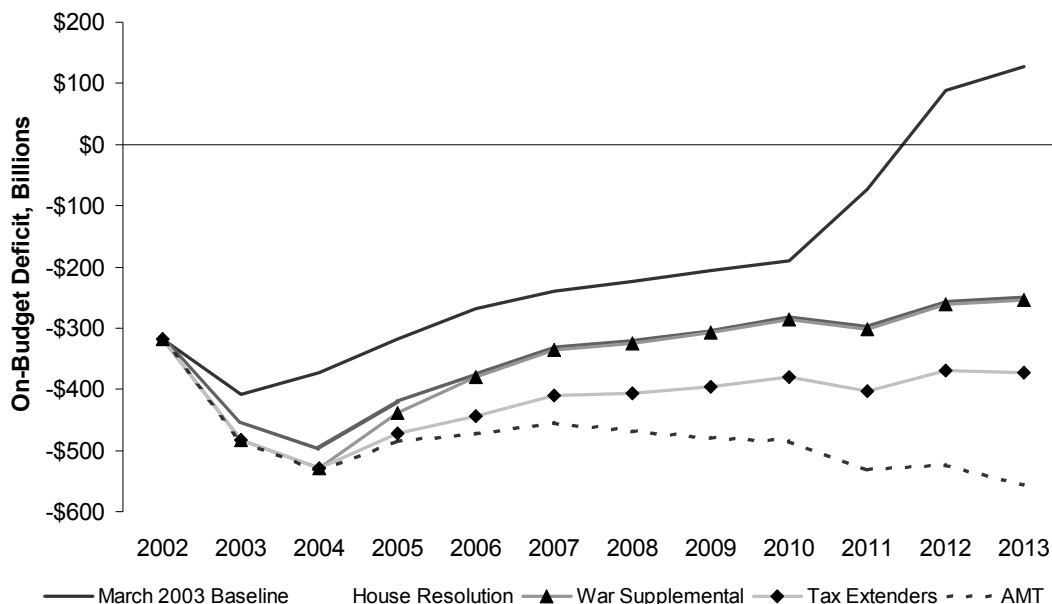
Deficits in the Fiscal Year 2004 Budget Resolution Cycle

UNIFIED DEFICITS												
(Billions of Dollars; Negative Indicates Deficit)												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-13
Baseline	-245.9	-199.8	-122.7	-57.3	-8.7	26.6	61.4	95.9	230.8	405.5	458.9	890.6
Committee	-288.1	-324.2	-226.0	-160.6	-99.8	-69.2	-34.5	5.8	7.2	63.2	83.4	-754.5
Floor	-288.1	-324.3	-230.1	-168.2	-111.4	-87.4	-60.5	-29.5	-29.1	21.4	37.1	-981.9
Conference	-347.2	-385.0	-293.7	-217.1	-165.8	-151.1	-93.4	-68.6	-71.1	9.8	36.8	-1399.1

NON-SOCIAL SECURITY DEFICITS (Billions of Dollars; Negative Indicates Deficit)												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-13
Baseline	-408.5	-372.8	-317.5	-269.1	-239.8	-223.7	-206.8	-190.4	-72.9	87.7	127.7	-1677.7
Committee	-453.2	-497.6	-419.7	-375.3	-334.3	-323.5	-307.3	-285.5	-302.4	-261.0	-255.0	-3361.6
Floor	-453.2	-497.7	-423.9	-383.0	-345.9	-341.7	-333.3	-320.8	-338.6	-302.8	-301.3	-3589.0
Conference	-512.3	-558.4	-487.5	-431.8	-400.3	-405.4	-366.1	-360.0	-380.7	-314.4	-301.5	-4006.0

- The conference agreement shows no 2004 costs for peace-keeping in Iraq. Given that the American troops have been in Afghanistan for over a year, in Kosovo for four years, and in Bosnia for seven years, it seems inevitable that the substantial costs for Iraq will be incurred in 2004 and perhaps beyond.
- The Republican conference agreement provides only \$400 billion for **both** a new Medicare prescription drug benefit and comprehensive Medicare reform. This amount is insufficient to provide a meaningful drug benefit, let alone enough to also accomplish system-wide reform.
- Similarly, projected levels of future appropriations in the conference agreement are not credible because they clearly are inadequate. (For discussion of unrealistic appropriations levels, see *Appropriations*.) Time and again, Republicans themselves have voted to violate their own promises about the spending cuts they ostensibly desire. This means that projected deficits are understated to the degree that Republicans are unwilling to live up to their own rhetoric — probably hundreds of billions of dollars over the next decade.

The Budget Outlook Is Far Worse Than Claimed



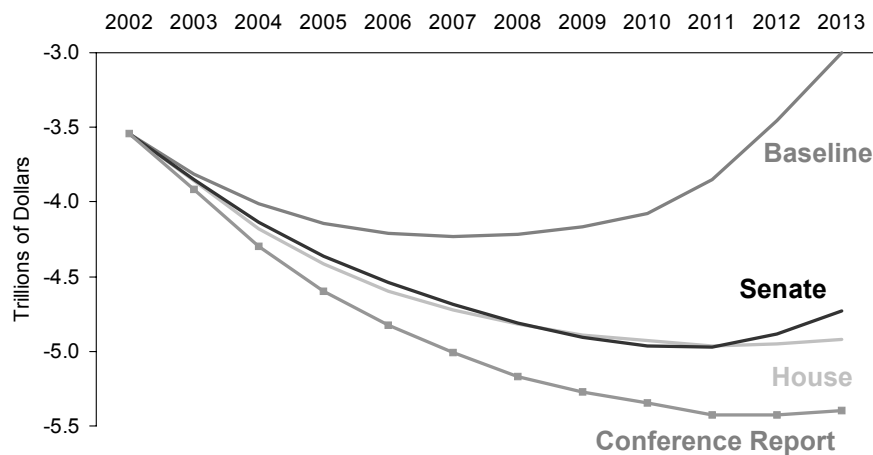
- The Republican conference agreement once again completely ignores the threat to middle-class families from the alternative minimum tax (AMT). The number of tax filers subject to the AMT is projected to rise from less than 2 million today to about 40 million by the end of the decade. This will impact families with children particularly hard, and Congress will not allow it to happen. Yet, Republicans' budget disregards the roughly \$600 billion over ten years it will take to fix the problem.
- The conference agreement also fails to acknowledge the huge costs associated with either strengthening Social Security for the long-run or privatizing it, as many Republicans advocate. For instance, responsible analysts agree that the transition to the kind of privatized system that most Republicans advocate would cost about \$1 trillion over the next decade, but such costs are completely absent from the budget numbers.

By any reasonable reckoning, the projected ten-year deficit will be at least \$1 trillion worse than the Republican conference agreement admits. Financial markets — one of the most important arbiters of the budget's credibility — have already come to the conclusion that deficits will be much larger than the official projections suggest. For instance, Goldman Sachs currently is advising its clients that budget deficits will exceed \$400 billion per year for the foreseeable future. Understating the deficit consequences of their budget may help Republicans with short-term political considerations, but financial markets already have awakened to the corrosive effects these deficits will have for many years to come.

The Debt and the Statutory Debt Limit

The budget resolution conference report maps a course for excessive debt. A rising debt crowds out productive private-sector business investment. A large debt also entails large public debt-service costs, which require large tax collections merely to meet the nation's legal interest obligations. High debt-service costs, which buy the people no public good or service, breed cynicism and distrust of government. The taxes needed to pay those interest costs make it harder to finance needed government activities. Now, on the doorstep of the retirement of the baby-boom generation, this concern is particularly salient.

Republican Budgets Deepen National Debt



Just two years ago, the incoming Bush Administration projected a cumulative unified budget surplus from 2002 through 2011 of \$5.6 trillion. The Administration claimed that this surplus would pay off the entire debt held by the public by the end of that period, and would obviate the need to increase the nation's statutory debt limit (which includes the government's own holdings of Treasury securities in trust funds, such as the Social Security Trust Fund) until 2007. Instead, the conference agreement now estimates a cumulative unified budget deficit of \$2.0 trillion over the same 10 years, a record debt held by the public of \$5.4 trillion by 2011, and a statutory debt topping an unthinkable \$12 trillion by the end of the current budget window. The Congress has already been forced to enact an emergency increase in the statutory debt limit once, and it is now up against the debt limit for a second time.

The Administration and Congressional Republicans justified their original tax cuts in 2001 in large part because of the dire consequences that they said would result if the nation paid off its public debt, then about \$3.3 trillion. Many other economists questioned whether there would be ill effects of paying off the debt; but more fundamentally, few political observers could understand the Republicans' haste to stop paying down debt when the nation was still \$3.3 trillion away from zero. Subsequent events have borne out this skepticism about the Bush budget and tax cuts; in fact, the Administration never came close to paying off the debt, and now finds itself in danger of setting off a debt explosion. But even if the budget resolution's current rosy vision of the future should come to pass, the nation will still begin the retirement of the baby-boom generation in 2008 with persistent non-Social Security deficits and far too much debt to allow a careful and timely reform of this vital public retirement system.

The nation reached its statutory debt limit in March, but after the Treasury used accounting manipulations to limit the debt for several weeks, the filing of tax returns in April brought enough cash for a temporary reprieve from the debt problem. Now House Republicans, who politicized and opposed increases in the public debt limit while the preceding Democratic Administration worked mightily to turn the nation's failing finances around, want to raise the debt ceiling by stealth. They have made a change to the House rules — what they call the "Hastert Rule" — to make a House debt-limit increase bill automatic with the passage of a budget resolution conference agreement by Congress. Their goal is to avoid going on record to increase the nation's debt. However, a rising debt is the natural consequence of their policy of fiscal irresponsibility, and unless the Senate passes an identical debt-limit increase, the bill will come back to the House for an explicit vote. Advocates of fiscal responsibility have made it clear that they will seek a full debate of the debt issue before the debt ceiling is increased again.

Republican Disarray Over Tax Cuts

The strange tax provisions in the budget conference report show that even some Republicans now question the wisdom of cutting taxes by another \$1.3 trillion in the face of large, chronic deficits. The conference report's tax reconciliation instructions rely on an opaque parliamentary gimmick and a verbal agreement to paper over Republicans' sharp differences about further large, debt-financed tax cuts. This complex concoction allows Republicans to postpone resolving their differences over tax cuts while still claiming to have passed a coherent budget. (For a chronology of Republicans' disputes over new tax cuts, see *Overview*).

Tax Cuts in the Republican Conference Agreement on the Budget Resolution		
Billions of Dollars, 2003-2013		
Tax Cuts Protected by Reconciliation		
Revenue Effects		535
Outlays for Refundable Items		15*
Other Tax Cuts		
Revenue Effects		690
Outlays for Refundable Items		Unknown**
TOTAL TAX CUTS		1,240
Reserve Fund for Health Care for the Uninsured***		50
TOTAL POTENTIAL TAX CUTS		1,290

* The reconciliation directive for the Senate calls for \$27.5 billion in outlay effects as part of a total reconciled tax cut of \$550 billion over ten years.

** No specific policy is assumed and therefore could be any combination of revenue reductions and outlay effects.

*** No specific policy is assumed and therefore could be any combination of revenue reductions, outlay effects from tax law changes, or other spending. This table assumes that Republicans favor addressing health care for the uninsured through tax cuts.

The Tax Cut's Size?

The conference report calls for tax cuts totaling \$1.3 trillion over ten years. However, only part of this would have the special parliamentary protections of a "reconciliation" bill, which can pass the Senate with a simple majority because it cannot be filibustered. As such, the part of the

total tax cut protected by reconciliation is the part most likely to pass in a closely divided Congress.

Republicans disagree with one another about the proper size of these reconciled tax cuts. For instance, House Majority Leader Tom DeLay has argued for an even larger tax package than the President's \$726 billion "economic growth" plan, saying, "Nothing is more important in the face of a war than cutting taxes." At the same time, a group of moderate Senate Republicans is staunchly opposing any reconciled tax cut over \$350 billion, because of exploding budget deficits. The strange reconciliation contrivance in the conference report camouflages these disagreements and sustains the fiction that Republicans have crafted a budget that commands majority support in both Houses of Congress.

Specifically, the budget resolution requires both the House Ways and Means Committee and the Senate Finance Committee to report reconciliation tax-cut bills to their respective chambers of \$550 billion over ten years. However, in an effort to placate Senate Republicans who want only \$350 billion, the report establishes a new parliamentary point of order that allows any Senator to object to a ***Committee-reported*** bill exceeding \$350 billion. It would require a 60-vote super-majority to waive this new point of order.

The conference report makes it more difficult for the Senate to pass a ***Committee-reported*** reconciliation bill exceeding \$350 billion, but the language simultaneously makes it easier to pass the ***conference report*** for that same reconciliation bill up to \$550 billion. This is because the budget resolution defines as a "reconciliation bill" any measure calling for a tax cut of up to \$550 billion reported by the conference. Thus, any conference report on a tax-cut reconciliation bill of up to \$550 billion would still be protected from a Senate filibuster — even though initial Senate consideration of that same bill might require a super-majority.

This confusing structure was supposed to make the quarreling Republican factions happy, but it did not work because the Senators seeking a smaller tax cut saw through it. They held fast to their position that the reconciliation tax cut should not exceed \$350 billion, whether during initial Senate consideration or in later consideration of a conference report. These Senators realized that the new point of order in the budget resolution is a sham, because the House's larger tax cut numbers can prevail over the Senate's after conference on the tax bill. They insisted on a public commitment from Senate Finance Chairman Charles Grassley that he would not allow the Senate to consider any tax reconciliation bill exceeding \$350 billion, even if permitted by the budget resolution.

An additional quirk in the budget resolution's reconciliation directives reveals still more disarray among Congressional Republicans. Clearly, the big-tax-cut faction of the House Republicans designed their parliamentary invention to give them greater leverage over the Senate in the tax-cut debate.

Tax law changes often affect outlays as well as revenues because of refundable credits. The reconciliation directive to the Senate Finance Committee calls for \$27.5 billion over ten years in additional outlays. This is equal to the cost of the refundable portions of the President's proposal to accelerate the phase-in of the expanded child credit. However, the reconciliation directive for the House Ways and Means Committee only calls for \$15.0 billion in additional outlays related to tax-law changes, even though the Committee-reported budget resolution originally called for the same \$27.5 billion as the Senate.

The round number for tax-related outlays in the House corresponds to no known policy. One presumes that it was reduced from the original \$27.5 billion to stake out a negotiating position with the Senate at the eventual conference on the tax-cut reconciliation bill. One might infer that House Republicans wanted to ensure that the conference report on any reconciliation tax cut would contain a minimal level of refundable provisions.

Tax Cut Disarray Demonstrates That Republicans' Resolution Is a Budget in Name Only

Once again, this year's Republican budget resolution fails to provide meaningful guidance for specific decisions about taxes and spending. The entire point of a budget resolution is to set broad budget totals before consideration of any specific legislation implementing such a budget. Having a broad outline before budget specifics are decided makes it less likely that individual revenue and spending decisions result in unacceptable deficits. But this year's resolution fails to fulfill that function.

With the two Houses of Congress working from different sets of numbers, the budget resolution will not require policymakers to choose among competing priorities within a single comprehensive framework. Doing so would require that all priorities be evaluated on a level playing field. However, Republicans gamed the process and postponed the real decisions about taxing and spending.

Republicans Persist in a Failed Approach

Past Republican tax cuts did not boost the economy. Large, back-loaded Republican tax cuts in 2001 and 2002 have utterly failed to create jobs, as promised. In fact, recent economic indicators suggest that the economy may have entered a "double-dip" recession. (For a more extended discussion of the scope and severity of the current economic downturn, see *Update on Trickle-Down Economics*.)

- ▶ Since President Bush took office, 2.7 million private-sector jobs have been lost, with over half a million lost in just the last three months.
- ▶ The number of people unemployed for six months or longer has tripled.
- ▶ Approximately \$4.6 trillion in stock market wealth has evaporated.
- ▶ Consumer confidence has plunged to its lowest level in a decade.
- ▶ Real business investment has fallen at a 11.8 percent.

Yet Republicans persist in advocating the same failed approach. Despite earlier tax cuts' evident failure to better the economic conditions of working families, Republicans can think of nothing else but more of the same. The Republican budget resolution merely expands upon the policies that already have given us the worst record of any presidential administration of the last half century for jobs, investment, and GDP growth.

Why have Republicans' repeated tax cuts failed to boost the economy? It is increasingly clear that the sudden re-emergence of chronic, large budget deficits is weighing down the economy. Neither families nor businesses are likely to make major financial commitments as long as they believe that the federal government's borrowing will be out of control for the foreseeable future. In light of this, Republicans' insistence on still more huge, debt-financed tax cuts in the face of yawning deficits is disappointing.

Democrats Proposed a Better Way

Before President Bush unveiled his latest round of tax cuts, Democrats proposed a real jobs plan. This plan pumped \$136 billion — in immediate tax cuts, extended unemployment benefits, off-the-shelf infrastructure projects, and temporary aid to the states — into the economy this year when it needs it. It imposed virtually no direct budgetary costs in subsequent years so that the budget could recover as the economy recovered. The Democratic stimulus plan also fit comfortably within a comprehensive and coherent overall Democratic budget alternative, which did not need to rely on the manifold implausibilities of the Republican budget. Mainstream, private-sector economic models show that the Democratic stimulus plan would create about twice as many jobs this year as the President's tax cuts, because his so-called economic growth plan essentially ignores the need for stimulus now.

The Republican tax cut in 2003 is only \$57 billion, or 0.5 percent of GDP. The first year tax cut is only 4.4 percent of Republicans' total \$1.3 trillion tax package. Republicans expect tax cuts

many years in the future to help the economy today. However, the worsening of structural budget deficits due to those tax cuts is holding back the economy.

Worse even than the “little bitty” size of the economic stimulus Republicans advocate is that it relies on untested, uncertain, and indirect measures that hurt the long-term budget deficit. For instance, the Republican proposal to eliminate personal income taxes on stock dividends assumes (1) that changes in households’ dividends will encourage more people to invest in the stock market, which will (2) boost the stock market, which will (3) increase the value of people’s portfolios, which will (4) prompt increased spending, and which will (5) supposedly boost hiring. If any link in this causal chain is unreliable, the whole approach to short-term stimulus is unreliable. Meanwhile, the Republican approach has quite certain and quite harmful effects on the long-term deficit.

Republican Budget Makes State Fiscal Crisis Even Worse

States are currently facing their worst fiscal crisis in decades, with 41 states facing a cumulative budget gap of \$78 billion for 2004. When combined with budget shortfalls in 2003, states are facing approximately \$100 billion in budget deficits that must be closed over the next several months.¹ States are using both spending cuts and tax increases to close the gap. These cuts to state services run the gamut, ranging from shrinking health care benefits to shorter school years to reductions in law enforcement officers. *However, rather than assisting states during this time of crisis, the Republican budget makes the states' financial woes even worse.*

- ***Republican tax cuts will result in shrinking state tax revenues*** — Because most states with an income tax use the federal tax code as the basis for their state tax code, federal tax cuts often result in reduced state income tax revenues. The Center on Budget and Policy Priorities estimates that the President's tax cut ideas will negatively affect state revenues, causing states to lose up to \$64 billion over the next ten years.² This amount is on top of the \$75 billion in revenues that states will lose over the next ten years due to the 2001 tax cuts.
- ***Proposal to eliminate double taxation of dividends will make it more expensive for states and localities to borrow money*** — Excluding dividends from personal income taxes draws investor dollars away from municipal bonds by making stock investments more attractive relative to such bonds. States and localities will need to pay higher interest rates in order to borrow funds, putting further strain on tight budgets.
- ***Republican budget cuts discretionary spending, shortchanging states in many areas*** — The conference agreement cuts domestic discretionary spending for 2004 by \$7.2 billion below the level needed to maintain services at the 2003 level. These discretionary spending cuts mean that some federal grant programs benefitting states and communities will need to be scaled back. The budget also fails to adequately fund critical priorities such as "No Child Left Behind" and homeland security efforts, leaving states to shoulder a large portion of the costs.
- ***Republican budget rejects policy options that would assist states*** — Despite the need for state fiscal relief, and the fact that 80 Senators supported the inclusion of \$30 billion in the budget for this purpose, the conference agreement fails to provide a penny of fiscal relief to states. The Republican budget stands in sharp contrast to the House Democratic budget, which would have provided \$31 billion in immediate fiscal assistance to states.

¹According to the National Conference of State Legislatures (NCSL), states face budget gaps of \$21 billion for 2003. In combination with the minimum shortfall of \$78 billion projected for 2004, total state funding gaps will reach or exceed \$100 billion.

²CBPP's analysis shows that eleven of the President's tax proposals will result in lost state revenues. The federal cost of the eleven tax proposals is \$277 billion over ten years. <http://www.cbpp.org/2-4-03sfp.htm>

The Budget Enforcement Act: Issues Of Surpluses and Deficits

In 1990, Congress enacted the Budget Enforcement Act (BEA) in an effort to rein in deficits that the government had experienced yearly since 1970. The main enforcement provisions of the BEA included discretionary spending caps, which set limits on appropriations, and pay-as-you-go (PAYGO) provisions, which required that increased mandatory spending and tax cuts be completely offset by either decreases in other mandatory spending or tax increases. Both of these mechanisms were enforced through sequestration, a process that imposed harsh cuts to mandatory programs. The BEA was extended twice and expired October 1, 2002. There is widespread agreement that the discretionary caps and PAYGO played a critical role in converting massive deficits into record surpluses during the 1990's. Yet, Congress has not extended these rules although we again face chronic deficits.

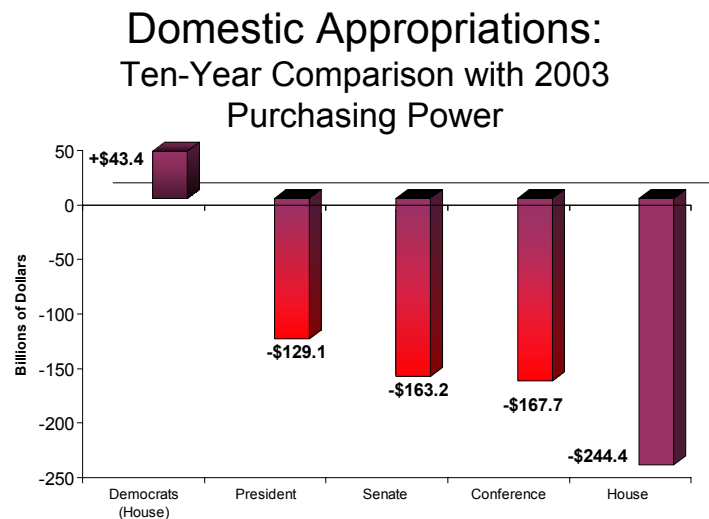
The Republican conference agreement includes versions of discretionary caps and PAYGO that apply *only in the Senate*. The Senate discretionary caps set limits for 2003 through 2005 for three categories: overall discretionary spending; transit programs; and highway programs. The Senate discretionary caps are enforced through points of order that apply against any budget resolution that increases discretionary spending over the 2004 conference agreement as well as any appropriations bill that causes a cap to be exceeded. A 60-vote majority would be required to waive the point of order. Unlike prior law, a violation of the new PAYGO and cap limits no longer results in across-the-board spending cuts. This time, the only enforcement mechanism is a Senate point of order.

The conference agreement's Senate PAYGO rule is an extension of the Senate pay-as-you-go point of order which was first adopted in 1994 and had been updated and revised up to April 15 of this year. The current version does not apply the rule to revenue or spending changes in this or subsequent budget resolution conference agreements. However, the rule will apply to all other Senate consideration of revenue and mandatory changes.

In addition, the conference agreement extends through September 30, 2008, the Senate supermajority vote requirements for waivers and appeals that also expired April 15 of this year.

Appropriations

- ***Cuts 2004 Total Appropriations*** — The conference agreement cuts 2004 discretionary appropriations to \$784.5 billion, which is \$6.4 billion below the amount needed to maintain services at the 2003 level (excluding the recently passed 2003 supplemental appropriations for the war). This 2004 total is \$9.1 billion more than the House budget provided and \$6.9 billion less than the Senate budget provided. Total appropriations are about equal to the President's request. Some illustrative cuts in the President's budget are discussed on pages 7-11 of the March 9 update to the *Summary and Analysis of President Bush's 2004 Budget*.
- ***Cuts Ten-Year Total Appropriations*** — Although the conference agreement matches the President's appropriations total for 2004, over ten years (2004-2013) it provides \$94.3 billion less than the President's budget. The conference agreement cuts both defense and domestic appropriations compared with the President's budget.
- ***Slashes Domestic Funding*** — The conference agreement cuts 2004 funding for domestic appropriations by \$7.2 billion (2.0 percent) below the level needed to maintain services at the 2003 level (excluding the recently passed 2003 supplemental funding bill). The domestic cut is greater than the total appropriations cut because international relations gets a big boost and defense gets only a modest cut.



The cut to domestic funding gets steeper as time goes on; over ten years, domestic funding in the conference agreement is \$167.7 billion below the amount needed to maintain services at the 2003 level, and is \$38.6 billion below the amount in the President's budget. The conference report masks the full extent of its particular cuts with a ten-year unspecified cut of \$128.3 billion, with \$7.6 billion in additional unspecified

cuts for 2004 alone. Even though it hides this much of its cuts, the conference agreement still shows deep cuts to veterans health care, law enforcement, environmental protection, and health care programs. The conference agreement's apparent increases for education, science, and international relations may not in fact occur because of the large unspecified cut. The Appropriations Committee may apply some or all of the additional unspecified cut to education, science, or international relations.

- ***Requires an Additional \$2.6 Billion Cut*** — On top of the 2004 funding cuts described above, the conference agreement requires an additional unspecified cut of \$2.6 billion by limiting advance appropriations. Advance appropriations are discretionary budget authority that becomes available the first day of the next fiscal year, not the current fiscal year. For example, appropriations bills for fiscal year 2003 contained \$25.8 billion in funding that becomes available only on October 1, which is the first day of fiscal year 2004.

The conference agreement limits advance appropriations to \$23.2 billion, which is \$2.6 billion less than advance appropriations currently. That means that the 2004 appropriations bills must include \$2.6 billion less for 2005 than the 2003 appropriations bills did for 2004. This cut shows up in the 2005 column of the budget, but affects program funding for 2004.

Almost 84 percent of advance appropriations are for education, training, and social service programs. If these programs have to absorb this limit on advance appropriations, the resolution is cutting programs such as special education, Head Start, and adult employment training by \$4.7 billion (6.2 percent) compared with the President's budget. To see how much the President's budget already cut these programs, see pages 48-54 of the March 9 update to the *Summary and Analysis of President Bush's 2004 Budget*.

Mandatory Programs

- ***Conference Agreement Abandons House Republicans' Cuts*** — The conference agreement abandons the House Republican budget's \$265 billion in ill-advised cuts to vital mandatory programs over the next ten years, none of which were included in the President's budget or in the Senate Republican budget. These cuts would have hurt a wide range of programs including Medicare, Medicaid, veterans benefits, student loans, federal employee pensions and health insurance, and agriculture. These unfounded, formulaic cuts proved incredibly unpopular once the American public had the chance to consider them fully. Senate Republicans showed no interest in including them in the conference agreement.

In an effort to help House Republicans save face, the conference agreement includes a provision requiring authorizing committees to identify savings from eliminating “waste, fraud, and abuse,” which will be reported as legislative recommendations to the Budget Committees by September 2. These recommendations will supposedly guide the Budget Committees during the development of future budget resolutions. The conference agreement sets a May 16 deadline for the chairmen of the Budget Committees to insert in the Congressional Record the amount of recommended savings that each authorizing committee is to find.

Homeland Security

- ***Conference Agreement Matches President's Request*** — Like the House Republican budget, the conference agreement accommodates the President's full request for homeland security funding, which for 2004 includes \$41.3 billion in total resources for all homeland security activities. The conference agreement does not include additional funding for port security above the President's request added during Senate consideration of the budget resolution. Because neither OMB nor CBO has yet calculated how much of the enacted 2003 appropriations should be classified as homeland security funding, for most accounts it is not yet possible to compare the 2004 budget with the 2003 enacted level. However, OMB estimates that for 2003 the Administration requested \$41.0 billion in total resources for homeland security (not including the cost of the recently passed 2003 supplemental). For 2004, the budget resolution conference agreement provides just \$312 million more than this amount.
- ***Conference Agreement Includes Supplemental 2003 Funding for Homeland Security*** — The conference agreement provides funds in Function 920 (Allowances) to pay for the Administration's 2003 supplemental appropriations request, which included homeland security funding. Section 421 of the conference agreement further provides for the budget aggregates to be adjusted to reflect the actual cost of the 2003 supplemental as enacted. The enacted supplemental contained a total of about \$5 billion in homeland security funding for 2003.
- ***House Democratic Budget Provided More for Homeland Security*** — For 2004-13, the House Democratic budget provided \$24 billion — at least \$2 billion per year — more than the conference agreement for homeland security funding. The House Democratic budget also included \$10 billion in additional funding for homeland security for 2003, roughly twice the amount provided by the conference agreement.

National Defense and the War in Iraq

- ***Conference Agreement Reduces Defense*** — The conference agreement provides the amount requested in the President's budget for defense for the next five years, but reduces defense spending below the levels in the House Republican budget by \$55.8 billion over ten years. It provides \$208.0 billion more for defense than is required to maintain purchasing power at the 2003 level, excluding the impact of the 2003 supplemental for the war in Iraq. Neither the President's budget, the House Republican budget, nor the Senate Republican budget included any funding for the costs of war in Iraq or the global war on terrorism. The conference agreement includes funds for the 2003 costs of the war in Iraq, as described below, but those funds are not included in the defense function totals. Because neither the President's budget nor the conference agreement provides any funding for 2004 for the costs of the war on terrorism or the cost of reconstruction and other post-war activities in Iraq, a 2004 supplemental that would increase defense spending above the levels contained in the conference agreement is likely.
- ***Conference Agreement Pays for Initial 2003 Costs of War in Iraq*** — The conference agreement provides the \$74.8 billion requested by the President for the defense, international, and domestic discretionary costs of the war in Iraq and the ongoing war on terrorism. These funds are included in Function 920 (Allowances). Because the Administration did not provide the Congress with any information about the likely costs of a war in Iraq until the President submitted his \$74.8 billion supplemental request on March 25 – after the House had already approved the Republican budget resolution – the House Republican budget contained no provision for the cost of the war in Iraq.

Section 421 of the conference agreement provides for an increase in budget aggregates to reflect the actual ten-year cost of the enacted supplemental, which was \$80.1 billion. Of this amount, \$62.8 billion was for activities in Function 050 (National Defense), \$8.1 billion for Function 150 (International Affairs), \$5.2 billion for non-aviation domestic discretionary programs, and \$4.0 billion for aviation industry relief. The aviation industry relief provisions of the supplemental extend beyond 2003. The conference agreement makes no provision for the costs of the war or reconstruction in Iraq for 2004 or beyond.

International Affairs

- ***Conference Agreement Matches President's Request*** — The conference agreement matches the President's request for international affairs funding for 2004 and subsequent years. For 2004, the conference agreement provides \$28.7 billion for appropriated international affairs programs. This is the same amount provided in the Senate Republican resolution and is \$808 million more than the amount provided in the House Republican resolution. For 2004, the conference agreement (like the President's request) provides \$2.8 billion more than the amount needed, according to CBO, to maintain purchasing power at the 2003 level (excluding the recently passed 2003 supplemental).

It is possible that some or all of the apparent increase for international affairs will not occur, because the Republican conference agreement includes an additional ten-year unspecified cut of \$128 billion, with \$7.6 billion in additional unspecified cuts for 2004 alone. The Appropriations Committee may apply some or all of this additional cut to international affairs funding.

- ***Conference Agreement Does Not Include 2004 Costs of Iraq Reconstruction*** — Like the President's budget, the conference agreement does not provide funding for 2004 costs of reconstruction in Iraq. The conference agreement does provide funds in Function 920 (Allowances) to pay for the Administration's 2003 supplemental appropriations request, which included international affairs funding. Section 421 of the conference agreement further provides for the budget aggregates to be adjusted to reflect the actual cost of the 2003 supplemental as enacted. The enacted supplemental contained a total of \$8.1 billion in international affairs funding for 2003, including funding for Iraq relief and reconstruction and assistance to coalition partners and allies in the war on terrorism.

Medicare, Medicaid, and Public Health Programs

- ***Conference Agreement Provides Inadequate Funding for Medicare Prescription Drugs and Fails to Guarantee a Universal Benefit*** — The conference agreement matches the President's budget by including a \$400 billion reserve fund for a Medicare prescription drug benefit. This funding level is clearly inadequate. After accounting for inflation, it barely covers the House Republicans' plan from last year, which had large gaps in coverage and no set premium. In fact, the benefit offered last year by the House Republicans was worth 40 percent less than the most popular plan offered to all Members of Congress under the Federal Employees Health Benefit Program.

Furthermore, the conference agreement follows the President's lead by failing to guarantee a universal benefit available to all seniors. The conference agreement does not reject the President's faulty concept of forcing seniors into private plans if they want to get a meaningful prescription drug benefit.

- ***Republicans Dismantle Medicaid's Guarantee of Health Care for Low-Income Individuals*** — The conference agreement abdicates responsibility for health care coverage for low-income populations by allowing states to block-grant Medicaid and the State Children's Health Insurance Program (CHIP), consistent with the President's budget. This radical structural change tempts states with more funding now in exchange for reduced funding down the road, which will likely lead to cuts in benefits and eligibility restrictions. The block grant effectively ends the CHIP program and ends the federal entitlement to health care for 14 million people.
- ***Conference Agreement Restores Misguided Cuts to Medicaid and Medicare*** — The conference agreement rejects the House Republican budget's reconciliation instructions for spending cuts in the Committee on Energy and Commerce of \$107 billion and cuts in the Committee on Ways and Means of \$62 billion. These reconciliation instructions would have required Medicaid cuts of up to \$93 billion over ten years and Medicare cuts of up to \$62 billion or more.
- ***Conference Agreement Includes Medical Liability Reform*** — The conference agreement includes savings due to medical liability reform of \$11.2 billion in Medicare and \$3.7 billion in Medicaid, Tricare for Life, and the Federal Employees Health Benefits Program. These savings were included in the Senate Republican budget, but were not in the House Republican budget.
- ***Conference Agreement Provides \$50 Billion for the Uninsured*** — The conference agreement provides a reserve fund of \$50 billion to provide health insurance for the

uninsured, including tax deductions for the purchase of health insurance for people lacking employer-sponsored coverage. The Senate Republican budget included \$88 billion for the uninsured, while the House Republican budget failed to provide any reserve funding for the uninsured.

- ***Conference Agreement Provides President's Budget Levels for Appropriated Health Programs*** — The conference agreement provides \$49.6 billion for appropriated health programs for 2004. This funding level is \$3.1 billion below the Senate Republican budget level, but \$1.6 billion above the House Republican budget level. For 2004 and over ten years appropriated health programs are funded at virtually the same level as in the President's budget. (See page 57 of the March 9 update to the *Summary and Analysis of President Bush's 2004 Budget* for a description of funding levels and cuts under the President's budget.) However, ten-year funding levels are \$9.9 less than the amount needed to maintain purchasing power at the 2003 level.

The cut to appropriated health programs is likely to be even worse than it appears because the Republican conference agreement includes an additional ten-year unspecified cut of \$128 billion, with \$7.6 billion in additional unspecified cuts for 2004 alone. The Appropriations Committee may apply some or all of this additional cut to appropriated health programs. Appropriated health programs include anti-bioterrorism activities, biomedical research, and most direct health care services.

Veterans

- ***Conference Agreement Cuts \$6.2 Billion In Veterans Health Care*** — The conference agreement increases funding for appropriated veterans programs for 2004 by \$2.6 billion above the amount needed to maintain purchasing power at the 2003 level, but cuts appropriations for veterans health care by a total of \$6.2 billion below that level over ten years. The conference agreement does not include the reconciliation instructions to reduce spending for mandatory veterans benefits by \$14.6 billion over ten years that were contained in the House Republican budget. The House rejected these cuts in the motion to instruct conferees offered by Rep. Spratt, which was adopted by a vote of 399-22 on April 1, 2003. Ultimately, the conference agreement provides \$22.1 billion more in budget authority for veterans programs than the House Republican budget.

The ten-year cut to appropriated veterans programs is likely to be even worse than it appears, and the apparent \$2.6 billion increase for veterans programs for 2004 is likely to be smaller than it at first appears, because the Republican conference agreement includes an additional ten-year unspecified cut of \$128 billion, with \$7.6 billion in additional unspecified cuts for 2004 alone. The Appropriations Committee may apply some or all of this additional cut to discretionary veterans programs.

- ***Conference Agreement Includes New Fees*** — The conference agreement assumes the implementation of proposals included in the President's budget to impose a \$250 enrollment fee on priority level 7 and 8 veterans who wish to maintain their eligibility to use the veterans medical care system, and to increase co-payments for primary care visits and prescription drugs for priority level 7 and 8 veterans.

Working Families and the Safety Net

- ***Republican Conference Agreement Cuts \$2.7 Billion from Appropriated Low-Income Programs*** — The Republican conference agreement cuts funding for housing and other annually appropriated income security programs for 2004 by \$2.7 billion, or 5.6 percent, below the amount necessary to maintain purchasing power at the 2003 level. This is \$119 million below the inadequate funding level in the President's budget. The cut to **low-income programs** is likely to be even worse than it appears because the Republican conference agreement includes an additional ten-year unspecified cut of \$128 billion, with \$7.6 billion in additional unspecified cuts for 2004 alone. The Appropriations Committee may apply some or all of this additional cut to **low-income programs**.

Four programs account for 85 percent of appropriated income security funding: low-income housing assistance, the child care and development block grant, low-income home energy assistance, and nutritional assistance for women, infants, and children (WIC). For illustrative examples of the types of freezes and cuts that would be required to achieve the conference agreement funding level for appropriated income security programs, see page 66 of the March 9 update to the *Summary and Analysis of President Bush's 2004 Budget*.

- ***Conference Agreement Abandons Unemployed Workers*** — The federal Temporary Extended Unemployment Compensation (TEUC) program, enacted by Congress in March 2002 and scheduled to expire May 31, provides only 13 weeks of extended benefits to workers in most states who have exhausted their regular unemployment benefits but are still unable to find a job. Unemployed workers' need for additional assistance is as great or greater now than it was when TEUC was created, but the Republican conference agreement fails to extend the program beyond May. Over the past two years, 2.7 million jobs have disappeared, and the economy continues to hemorrhage jobs today. By the end of May, an estimated 1.1 million workers will have exhausted their TEUC benefits but remain unemployed. An estimated additional 2.1 million workers will exhaust their regular unemployment benefits between June and November without successfully finding work. The Democratic budget would have extended TEUC for another six months and would have provided 26 weeks of extended benefits to all unemployed workers.
- ***Conference Agreement Provides No Funding for Significant Improvements to Mandatory Income Security Programs*** — The conference agreement increases total spending for mandatory income security programs by \$49.7 billion over ten years compared with projections of spending under current law, but \$45.4 billion of this increase is due to the outlay effects of the Republican tax cut. That leaves an increase of a scant \$4.3 billion – or about one tenth of one percent – to fund improvements to major

programs such as Temporary Assistance for Needy Families (TANF), child care, child nutrition, unemployment compensation, and Supplemental Security Income. The conference agreement assumes a slight increase in TANF-related and child care funding (described further below), as well as \$722 million over ten years for the President's proposal to convert the foster care and adoption assistance programs into an optional block grant to states. The conference agreement does not assume any additional resources above current-law projections for child nutrition programs, which are due for Congressional reauthorization this year. Finally, the conference agreement abdicates responsibility for health care coverage for low-income populations by allowing states to block-grant Medicaid and the State Children's Health Insurance Program (CHIP), consistent with the President's budget. For more information on Medicaid and CHIP, see *Medicare, Medicaid, and Public Health Programs*.

- ***Conference Agreement Fails to Fund Added Costs of Republican Welfare Reform Plans*** — The conference agreement assumes funding levels for TANF consistent with the President's budget. The President's budget freezes funding for the basic TANF program at the 2003 level of \$16.7 billion, eroding its purchasing power over time. Over ten years, the President's budget increases total TANF spending by \$3.2 billion compared with projected spending under current law. However, this increase is due to the reauthorization of the supplemental grant program, which was funded in 2002 but by law is excluded from projections of current-law spending. The conference agreement also increases funding for the Child Care Entitlement to States, by \$200 million per year from the current level of \$2.7 billion per year. However, both the President and House Republicans propose stringent new work requirements for parents receiving TANF cash assistance that will cost states far more than \$200 million per year. The Congressional Budget Office estimates that the new work requirements would increase state costs for child care and work activities by \$8 billion to \$11 billion over five years.

Transportation

- ***Conference Agreement Splits the Difference on Highway Funding*** — For highway and transit funding, the conference agreement comes in halfway between the House and Senate Republican budgets. For the next six years (the likely time span of the upcoming transportation reauthorization bill), the conference agreement provides \$231.1 billion in budget authority for the federal-aid highway program. For the same time period, the House Republican budget provided \$207.1 billion, while the Senate Republican budget provided \$255.7 billion. The House Republican budget contained roughly the amount required to maintain the current level of services for federal highway programs, while the Senate Republican budget accommodated significant annual increases in funding.

- ***President's Highway Funding Level Well Below Those in Congressional Budgets*** — For the federal-aid highway program, both the House and Senate Republican budgets were well above the President's budget. The President's budget provides \$189.5 billion over the next six years, \$17.6 billion less than the House Republican budget and \$66.2 billion less than the Senate-passed budget. The President's funding levels are much lower because the Administration does not assume any increase in the federal excise tax on motor fuels or the use of general funds for highway aid.³ The Administration claims that its budget provides the maximum amount possible for the federal highway program within those constraints.

Federal Highway and Transit Aid, 2004-2009
(Budget authority in billions of dollars)

	Federal-aid highways*	Mass Transit
President's budget (CBO re-estimate)	189.5	45.7
House-passed	207.1	43.1
Senate-passed	255.7	56.5
Conference agreement	231.1	49.1

* Includes minimum guarantee but not the highway emergency relief program.

³ The President's budget does deposit an additional 2.5 cents per gallon of the excise tax on gasohol (ethanol-based gasoline) into the Highway Trust Fund. Under current law, that 2.5 cents per gallon is deposited into the General Fund. In contrast, all of the excise tax on gasoline (18.3 cents per gallon) is deposited into the Highway Trust Fund. Both the House and Senate Republican budgets also assume this policy, which results in approximately \$600 million per year in additional receipts for the Trust Fund.

- ***Mass Transit Aid Halfway Between House and Senate Funding Levels*** — For mass transit aid over the six-year period, the conference agreement provides \$49.1 billion, about halfway between the House and Senate Republican funding levels. The House Republican budget froze mass transit funding at the 2003 level over the ten-year budget window, while the Senate Republican budget provided real increases in federal aid for mass transit.
- ***Provision for Higher Highway and Transit Aid*** — The conference agreement includes a provision allowing higher spending than the funding levels specified above under certain circumstances. If the coming transportation reauthorization bill increases receipts into the Highway Trust Fund or cuts mandatory spending from the Trust Fund, the Budget Committee Chairman can increase the spending allocations to the appropriate committees. Both the House and Senate Republican budgets contained similar provisions.
- ***Unspecified Cuts Unlikely to Fall on Highways and Transit*** — The Republican conference agreement includes an additional unspecified cut of \$128 billion in appropriations over the next ten years, with an additional unspecified cut of \$7.6 billion for 2004 alone. Although it is possible, it is unlikely that this cut will affect funding levels for highway or mass transit programs. First, the conference agreement reestablishes budgetary “firewalls” (separate discretionary caps) in the Senate for highways and mass transit programs in 2004 and 2005. Second, the upcoming surface transportation reauthorization bill will almost certainly reestablish budgetary firewalls for highways and transit for at least the next six years. These firewalls will make it difficult for appropriators to cut these programs below the amounts specified above.

Natural Resources and Environmental Protection

To help make room for unwise and ill-timed tax cuts, the Republican conference agreement essentially freezes 2004 appropriations for natural resources and environmental protection. Over the ten-year window of the conference agreement (2004-2013), appropriations for environmental programs increases annually but still falls well short of the levels required to maintain purchasing power at the 2003 level. In total, the ten-year funding level for environmental programs falls \$23.8 billion (7.0 percent) short of the amount required to maintain current services (see table below).

Appropriations for Natural Resources and Environmental Programs
(billions of dollars)

	2003	2004	2004-2013
CBO current services baseline	29.2	30.1	342.2
President's budget (CBO reestimate)	29.2	27.9	312.9
House-passed	29.2	27.0	303.1
Senate-passed	29.2	32.8	322.0
Conference agreement	29.2	29.3	318.4

For 2004, the conference agreement provides \$29.3 billion for 2004, which is only \$89 million more than last year's enacted level and \$776 million below the level required to maintain current services. The conference agreement is far better than the President's budget or the House-passed budget, which would have cut 2004 appropriations for environmental programs by significant amounts (see table above). However, the conference agreement does not contain the 2004 funding increases for priority environmental programs that the Senate added to their version of the budget resolution during floor debate.

The cut to environmental programs is likely to be even worse than it appears because the Republican conference agreement includes an additional unspecified cut of \$128 billion over ten years, with an additional unspecified cut of \$7.6 billion for 2004 alone. The Appropriations Committee may apply some or all of this additional cuts to environmental programs.

For examples of the specific programmatic cuts and freezes that the Republican conference agreement will require, see page 33 of the March 9 update to the *Summary and Analysis of President Bush's 2004 Budget*.

Department of Justice

For 2004, the Republican conference agreement on the budget cuts discretionary justice programs \$3.9 billion, or 7 percent, below the amount needed to maintain purchasing power at the 2003 level, and \$666 million below the President's request. For years 2004 to 2013, the conference agreement cuts justice programs by \$36.2 billion, or 8 percent, below the amount needed to maintain purchasing power. This substantial cut is enough not only to assume the President's elimination of local law enforcement programs (including the Community Oriented Policing Services (COPS) program, Edward Byrne grants, and Violence Against Women Act programs) but also to harm agencies such as the Federal Bureau of Investigation, the Immigration and Naturalization Service, the Drug Enforcement Administration, and the United States Customs Service. The cut to justice programs is likely to be worse than it appears because the Republican conference agreement includes an additional ten-year unspecified cut of \$128 billion, with \$7.6 billion in additional unspecified cuts for 2004 alone. The Appropriations Committee may apply some of this additional cut to justice programs.